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SUBJECT: DUARTE'S POPULARITY SINKS AS ECONOMY REMAINS
BUOYANT

11. (SBU) SUMMARY: Faced with declining poll numbers indicating that he is the least popular president in the Western Hemisphere, President Duarte labors to counter public perceptions that his administration has ineffectively managed Paraguay's economy. Those perceptions reflect Duarte's fiscal and economic priorities; however, economic realities and limited spending on national security undermine Duarte's approval ratings. While Duarte has made some economic progress in his term, corruption hampers Duarte's ability to manage the Paraguayan economy and improve public support. END SUMMARY.

DUARTE'S POPULARITY TRENDING DOWNWARD

12. (U) As he now enters his fifth and final year in office, public opinions of President Nicanor Duarte Frutos' performance are the lowest in the Western Hemisphere -- and are still on the decline. Mexican firm Consulta Mitofsky published poll results September 11 indicating that Duarte's 11 percent popularity rating ranks lower than any other president in the Western Hemisphere. A public opinion poll conducted by local consulting firm COIN in August suggested that Paraguayans -- including members of the Colorado Party -- are dissatisfied with Duarte's performance. Daily newspaper Ultima Hora, which commissioned the poll and has a liberal political bent, published the poll August 15-17. Ultima Hora indicated that 52 percent of respondents believed that living conditions had deteriorated under Duarte. Over the past three years, Duarte's approval rating declined from 22.9 percent in July 2004 to seven percent in August 2007 (sliding over 11 percentage points in the last six months alone). His disapproval rating increased from 35.1 percent to 54.6 percent during the same period. Forty-four percent of Colorado Party members disapproved of Duarte's performance -- despite their political affiliation with the president -- while 65 percent of opposition Liberals disapproved of his performance. Fifty-four percent of respondents believed Duarte honest, and 53 percent approved of his efforts to improve public education. Sixty percent claimed that employment conditions had worsened under his administration, while 81 percent disapproved of his handling of national security.

STATISTICS TELL A GOOD STORY

13. (U) Duarte countered negative perceptions of his performance by highlighting positive economic data and benchmarking his administration's performance against those of his predecessors in an August 16 meeting with the

diplomatic corps. He noted that Paraguay's real gross domestic product (GDP) grew four percent to USD 9.1 billion in 2006, and that the Central Bank's economists forecast economic growth this year of five percent. Duarte stated that the country's total real GDP grew 12.0 percent between 2004 and 2006, far exceeding the 6.8 percent expansion occurring between 1995 and 2003. He claimed that Paraguay increased international monetary reserves by USD 1.1 billion to USD 2.153 billion, and external debt decreased from 43.3 percent of GDP (USD 2.48 billion) in 2003 to 24.1 percent (USD 2.15 billion) in 2006.

14. (U) Public perceptions of Duarte's performance reflect his fiscal and economic priorities. In areas of social welfare such as education and social welfare, the public generally approved of Duarte's performance. (NOTE: Duarte is a former Education minister. END NOTE.) Fiscal spending on education and social welfare kept pace with with economic growth and increased as a percentage of GDP. Budget allocations this year to the Ministry of Education and Culture and the Ministry of Public Health and Social Services totaled USD 985 million, or 57.2 percent of the national budget, and 9.6 percent of GDP. The government spent over USD 1.6 billion on education since 2003 and will spend an estimated USD 444 million, or 4.3 percent of real GDP, on education this year. It increased health services spending from 1.1 percent of real GDP in 2003 to 1.7 percent, and increased spending on other services from 3.1 percent of real GDP in 2003 to 3.6 percent this year.

WHAT LIES BEHIND THE STATISTICS

15. (U) Nevertheless, economic realities and limited spending on national security undermine Duarte's approval ratings.

The Paraguayan economy, which depends heavily on agricultural commodities such as beef and soybeans, has not generated sufficient job growth to accommodate an annual population increase of 2.4 percent. Over 30 percent of Paraguay's population remains either unemployed or underemployed -- a figure that has remained steady since Duarte entered office. Public perceptions of economic conditions contributed to Duarte's high disapproval rating (60 percent). Moreover, Duarte's 81 percent disapproval on matters of national security may reflect the fact that this year the government budgeted just USD 90.2 million, or 5.24 percent of the total budget, for national defense, and USD 121.8 million, or 7.08 percent of the budget, for the Interior Ministry, which oversees the National Police.

16. (U) Corruption also hampers Duarte's ability to manage the Paraguayan economy and improve public perceptions of his performance. Transparency International released the 2007 Corruption Perceptions Index September 26 and ranked Paraguay the fourth-most corrupt nation (2.4) in the Western Hemisphere, ranking it slightly less corrupt than Ecuador (2.1), Venezuela (2.0), and Haiti (1.6). Corruption remains widespread in government. Numerous cases of government corruption -- including Vice President Luis Castiglioni's allegation September 28 that Director of the Yacyreta Binational Entity Paul Sarubbi Balansa had solicited bribes from Yacyreta Dam contractors to support rival candidate Blanca Ovelar's presidential campaign -- indicate that corruption syphons large sums of money from not only the administration's budget, but from huge and totally non-transparent, "off-budget" monetary streams like the Itaipu and Yacyreta hydroelectric utilities.

COMMENT

15. (SBU) While Duarte has made some economic progress in his term, it has not been enough to buoy his approval ratings. The administration -- with the help of the Finance Ministry and Central Bank -- can take some credit for

exercising fiscal restraint. However, the administration has not effectively addressed the average Paraguayan's daily concerns over jobs and security. The administration would need to dramatically increase social spending and decrease government corruption to provide the Paraguayan people with tangible benefits that could translate into higher presidential approval ratings. That is not likely given President Duarte's abandonment of day-to-day governance in favor of his near total focus on getting his chosen successor, Blanca Ovelar, approved in December as the official Colorado candidate for the April 2008 national elections. END COMMENT.

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